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SUBJECT: Turkish Foreign Trade Officials Seeking Broader
QIZ, New FTAs

¶11. (SBU) Summary: In recent meetings, Foreign Trade officials reiterated their desire for a QIZ with fewer sectoral restrictions, contending that, in its current form, the QIZ would have a very limited impact on Turkish exports. They also made contradictory statements on the EU Customs Union and its relationship to an FTA with the United States. End Summary.

QIZs

¶12. (SBU) In a December 24 meeting with Husnu Dilemre, Deputy Director General for Agreements, Econoff noted that U.S. legislation to create Qualifying Industrial Zones in Turkey would have to be resubmitted to the new Congress, and that the legislative vehicle for doing this is not yet clear. Dilemre said that he hoped this would provide an opportunity to revisit the QIZ's sectoral exclusions, as Foreign Trade's research to date had shown that a QIZ, in the form originally proposed, would have little economic benefit. He offered an alternate proposal which would limit a Turkey QIZ's impact on sensitive sectors of the U.S. economy by capping total exports (at a level to be negotiated) in exchange for the right to export duty-free in all sectors. This single QIZ, to be located in an area of high unemployment (likely in eastern Turkey), would be used as a development tool. Dilemre implied that this idea had not been fully cleared by the new State Minister for Foreign Trade Kursad Tuzmen. Econoff said he would report the idea.

Customs Union and FTAs

¶13. (SBU) Meeting with new Foreign Trade Undersecretary Tuncer Kayalar on December 20, Ag Couns and Econoff discussed new Turkish quarantine regulations (septel) and the EU customs union. Commenting on State Minister Tuzmen's recent statements calling for review of the customs union, Kayalar told us that the GOT would not seek wholesale revisions to the customs union. Rather, Turkey is seeking EU support in negotiating free trade agreements with third countries. Under the customs union, Turkey is required to align commercial and trade policy with the EU, which includes signing FTAs with the same third countries. Kayalar told us that some of these third countries are delaying negotiations because of an asymmetry in industrial tariffs: some countries, notably Algeria, have little incentive to conclude an FTA because they would be required to cut their own relatively high tariffs on Turkish goods to zero, while Turkish tariffs on their goods are already relatively low. Kayalar said Turkey seeks EU pressure on these countries to accelerate negotiations and end Turkish firms' competitive disadvantage vis-a-vis European exporters.

¶14. (SBU) Kayalar also said the GOT is interested in negotiating FTAs with the United States, Russia and Ukraine, none of which have FTAs with the EU. He acknowledged that this would require a derogation from the EU, and that obtaining this would be difficult. However, he added that the new GOT would try harder than its predecessors in this area. Conversely, Dilemre told Econoff several days later that an FTA with the United States would be a major departure from current Turkish trade policy, which is based on alignment with EU commercial/trade policy under the customs union. He also questioned the value of negotiating an agreement that would have to be abandoned on Turkey's EU accession.

Comment

15. (SBU) The Turks have raised the idea of an FTA with the United States periodically over the last several years, while acknowledging that it is not compatible with the customs union. Further, it is not clear that the GOT would be willing to offer the concessions (lowering tariffs and non-tariff barriers, especially in agriculture, strengthening intellectual property protection, among others) needed to negotiate an FTA based on mutual benefit. For these reasons, the Turks have sought unilateral preferences, such as U.S. concessions in the textiles and apparel trade and a less restrictive QIZ, rather than a more far-reaching reciprocal liberalization of trade.

Pearson